



March 19, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

Re: Comments on Advanced Notice of Proposed Rulemaking for Part 704
Sent via email to: regcomments@ncua.gov

Dear Chairman Fryzel, Vice Chairman Hood, Board Member Hyland:

Freedom Credit Union in Provo, Utah, serves approximately 3,600 members in our field of membership, with total assets of approximately \$22.5 million. As a smaller credit union, we rely on the services of SunCorp Corporate Credit Union for many services, including item processing, investments, and liquidity.

I have reviewed the 61 points raised in NCUA's ANPR related to the Corporate Credit Union Stabilization Program, and wish to respond to several of them. Many of the questions require more detailed understanding of the workings of the corporate credit union system than I have; I will therefore only address those areas for which I have enough information to form an opinion.

Generally, I believe that efforts to restructure the Corporate system must be done carefully, paying particular attention to the propensity for regulation to create

unintended consequences. I support the governance structure of Corporates in which Boards of Directors are elected from the credit unions they serve. Decisions regarding risk-taking and services to be provided by those Corporates are best left with the individual Corporates themselves, responding to the needs of their members. NCUA should resist the temptation to manage the institutions they regulate.

It is important to remember that the financial crisis we are dealing with has come as a surprise to the most experienced finance professionals in the world. Very few individuals foresaw the simultaneous collapse of housing, credit, and liquidity markets. Although hindsight allows us to look back now and say what we “should have done,” it is unreasonable for critics to blame the Corporates for the losses they are now being forced to recognize.

It is also critical to acknowledge that in spite of the magnitude of the problems now facing the industry, *the corporate system has worked*. When our credit union faced an unexpected demand for cash in late 2008, we drew on our line of credit with SunCorp. The liquidity services SunCorp provided were critical to our ongoing operations, and were an integral part of our liquidity plan. Now that we have excess cash, SunCorp continues to play an important role in our daily cash management.

Response to ANPR

Payment System Proposals

In response to questions 1 and 2: I worry that forcing a separation of investment and payment systems would increase our costs for both services, and remove efficiencies we rely on through our Corporate. We value the not-for-profit alternative our Corporate provides for payment processing services.

Liquidity and Liquidity Management Proposals

Item 1: It seems to me that a critical improvement in this area would be allowing the corporate credit unions to borrow funds directly from the CLF. This is a change that natural-person credit unions cannot make. I believe this would require legislative action. NCUA is in a strong position to advocate for this improvement.

Item 2: I am not sure what types of limits NCUA would impose that would have avoided the current crisis, or would prevent another such event in the future. It seems that the limits currently in place were adequate given the information that was known at the time. Corporates generally are extremely conservative in their investments, and their members will doubtless demand increased conservatism going forward.

Field of Membership Issues

Item 1. No, I believe any credit union should be able to join any corporate in the country.

Expanded Investment Authority

This is not an area I have sufficient expertise in to comment on. I have read the response from SunCorp, and I agree generally with their comments.

Structure: Two-tiered System

Item 1: The current two-tier system has met the needs of our credit union well.

Item 4: As is being made painfully obvious through the current circumstances, it is extremely difficult for credit unions to transfer risk outside the movement. I don't know how Corporates could transfer risk to US Central.

Corporate Capital

Core Capital

Items 1 and 4: I am not well versed in Corporate capital requirements, but I can tell you that from the standpoint of a natural-person credit union, risk-based capital makes the most sense and seems long overdue.

Item 6: Yes, this is one area I where I agree a change should be made. Credit unions who maintain “associate member” or other “member-lite” status with only a token deposit in a Corporate are essentially non-members. Services of Corporates should be limited to bona fide members.

Membership Capital

Item 2: Yes, MCS balance requirements should be tied to assets. Other methods to calculate required MCS balances either invite manipulation by natural-person credit unions, or are too cumbersome to administer economically.

Item 5: This seems entirely reasonable.

Risk-based Capital and Contributed Capital Requirements

Item 1: ABSOLUTELY! Risk-based capital should be the norm for all credit unions – corporate and natural person.

Item 3: As noted in my response to item 6 from “Core Capital” above, this is a sensible requirement that fits with the cooperative nature of credit unions.

Item 4: This is a tough one. If capital requirements are based only on assets, then this threshold may result in credit unions only being able to participate with one Corporate. However, basing capital requirements on deposits with that corporate may result in excessive administrative burdens as credit unions transact business with their corporate and balances naturally fluctuate. The requirements should be consistent, logical, and easy to administer.

Permissible Investments

Item 1: NO! If Corporates cannot invest in anything more than natural person credit unions can, the value they can provide to their members, and especially small credit unions, diminishes greatly.

Item 2: Restricting categories of investments in light of the current financial meltdown is tempting. However, what restrictions would have been placed to prevent the current crisis? The vast majority of all investments made by Corporates were AAA-rated securities. I don't see how additional regulation in this area would have prevented the current crisis.

Credit Risk Management

This entire section seems to highlight the underlying cause of the current problems: The rating agencies themselves were wrong. In spite of their best efforts, they fundamentally miscalculated the level of risk inherent in the products they were rating. Shifting the burden for this error to the Corporates does nothing to address this problem. I believe the rating structure itself needs to be overhauled. And that is a job that lies well outside the purview of credit unions or their regulators.

Asset Liability Management

Item 1: The current crisis lies so far outside what anyone models for that I am not sure this would help. Does our response to this crisis mean that all day-to-day decisions should be made assuming a total financial catastrophe is looming tomorrow?

Corporate Governance

Item 1: Credit unions, as member-owners of the Corporates, should be the ones to make this decision.

Items 2 and 7: Compensating directors would not have prevented this crisis. In fact, the public outcry over executive compensation to the firms that have contributed to the current crisis suggests there may be an inverse relationship between director pay and firm performance! Transparency in executive compensation is a red herring that NCUA should ignore.

Item 4: Recommendations in this area may be beneficial.

Item 5: Outside directors should be allowed, but not required.

Item 6: This proposal would not fundamentally change the current dynamic. I do not see how this would have prevented the current crisis, or would provide additional value to either Corporate or natural person credit unions.

Sincerely,

Ken Payne
President/CEO
Freedom Credit Union